

CITY STORES COMPANY

AND

SUBSIDIARY COMPANIES

ANNUAL REPORT

JANUARY 31, 1947

CORPORATE OFFICES
207 WEST NINTH STREET
WILMINGTON 43, DELAWARE

BOARDS
q658.27
C498r

LIT BROTHERS
Philadelphia, Pa.



LIT BROTHERS
Warehouse,
Philadelphia, Pa.



MAISON BLANCHE CO.
New Orleans, La.



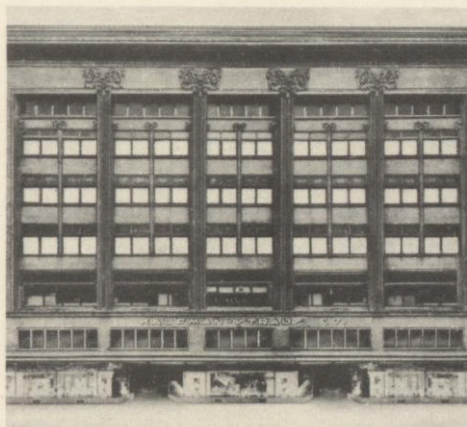
B. LOWENSTEIN & BROS., INC.
Memphis, Tenn.



LOWENSTEIN HOME SERVICE, INC.
Memphis, Tenn.



LOVEMAN, JOSEPH & LOEB
Birmingham, Ala.



KAUFMAN-STRAS CO., INC.
Louisville, Ky.



RICHARD STORE COMPANY
Miami, Florida



R. H. WHITE CORPORATION
Boston, Mass.



R. H. WHITE CORPORATION
Warehouse, Cambridge, Mass.

CITY STORES UNITS

LIT BROTHERS

Philadelphia, Pennsylvania

Established 1891

MAISON BLANCHE COMPANY

New Orleans, Louisiana

Established 1887

Branches

Carrollton, New Orleans, La.

Gentilly, New Orleans, La.*

B. LOWENSTEIN & BROS., INC.

Memphis, Tennessee

Established 1855

Branch

LOWENSTEIN'S HOME SERVICE, INC.

Memphis, Tennessee

LOVEMAN, JOSEPH & LOEB

Birmingham, Alabama

Established 1887

KAUFMAN-STRAUS COMPANY, INC.

Louisville, Kentucky

Established 1879

R. H. WHITE CORPORATION

Boston, Massachusetts

Established 1858

RICHARD STORE COMPANY

Miami, Florida

Established 1896

OPPENHEIM, COLLINS & CO., INC.

New York, N. Y. 1901

Philadelphia, Pa. 1903

Buffalo, N. Y. 1905

White Plains, N. Y. 1941

Brooklyn, N. Y. 1906

Garden City, N. Y. 1938

East Orange, N. J. 1946

Morristown, N. J.*

*To be opened this year.

CITY STORES COMPANY

OFFICERS

ALBERT M. GREENFIELD	<i>Chairman of the Board</i>
SAUL COHN	<i>President</i>
DR. WILLIAM D. GORDON	<i>Executive Vice President and Treasurer</i>
JOHN B. KNOX*	<i>Executive Assistant</i>
MEYER FELDMAN	<i>Vice President</i>
MILTON A. KAMSLER	<i>Secretary</i>
GORDON K. GREENFIELD	<i>Asst. Secretary and Asst. Treasurer</i>
BENJAMIN SCHNECK	<i>Corporate Controller</i>

*Appointed April 1, 1947

DIRECTORS

GUSTAVE G. AMSTERDAM Philadelphia, Pa.	GEORGE H. JOHNSON Philadelphia, Pa.
C. GORDON ANDERSON Miami, Fla.	JOSEPH H. LOVEMAN Birmingham, Ala.
MURRY C. BECKER New York, N. Y.	E. PERKINS MCGUIRE Boston, Mass.
ALFRED BLASBAND Philadelphia, Pa.	WILLIAM T. POSEY South Orange, N. J.
DAVID BORTIN Philadelphia, Pa.	DR. ISRAEL J. RACHLIN Newark, N. J.
SAUL COHN New York, N. Y.	HARRY W. SCHACTER Louisville, Ky.
DR. WILLIAM D. GORDON Philadelphia, Pa.	AARON R. SCHARFF Memphis, Tenn.
ALBERT M. GREENFIELD Philadelphia, Pa.	FRANK SCHMANDT New York, N. Y.
GORDON K. GREENFIELD New York, N. Y.	HERBERT J. SCHWARTZ New Orleans, La.
WALTER T. GROSSCUP Philadelphia, Pa.	HARRY G. SUNDHEIM Philadelphia, Pa.
JOHN J. TURTELTAUB New York, N. Y.	

Auditors

ERNST & ERNST
19 Rector Street
New York, N. Y.

Counsel

SUNDHEIM, FOLZ, KAMSLER & GOODIS
1315 Walnut Street
Philadelphia, Pa.

Transfer Agent

CENTRAL HANOVER BANK & TRUST CO.
70 Broadway
New York, N. Y.

Registrar

THE CHASE NATIONAL BANK OF THE
CITY OF NEW YORK
11 Broad Street, New York, N. Y.

TEN YEAR RECORD

<u>Year Ended January 31</u>	<u>Sales</u>	<u>Federal and State Income Taxes</u>	<u>Net Earnings</u>	<u>Earnings Per Share</u>	<u>Net Current Assets</u>	<u>Surplus</u>
1947	\$138,487,552	\$4,405,191	\$5,234,826A & B	\$3.10C & D	\$27,190,832	\$17,189,855
1946	100,672,187	7,643,164A	2,824,127A & B	1.75C	22,484,149	12,006,660
1945	76,721,832	7,444,440	2,131,638B	1.32C	14,976,241	11,231,962
1944	67,898,670	5,495,666	1,869,512B	1.54	13,332,387	9,283,584
1943	60,623,556	3,677,860	1,332,687	1.10	12,138,801	7,727,918
1942	53,872,064	1,534,105	1,408,175	1.16	12,759,303	6,299,505
1941	45,222,974	581,307	1,139,962	.94	11,769,460	4,980,105
1940	41,450,777	434,390	859,300	.71	10,820,030	3,928,277
1939	36,850,877	159,485	63,846	.05	9,980,404	2,926,513
1938	40,184,459	344,249	578,268	.48	9,650,369	2,877,870

A Includes for 1946 portion of loss on sale of store property of a subsidiary equivalent to income taxes thereby eliminated; balance of loss has been charged to surplus. For 1947 profit of \$860,504 applicable to City Stores Company on sale of radio business by a subsidiary has been credited to surplus.

B From such earnings, provision for postwar contingencies have been made by subsidiaries, of which City Stores Company's proportion amounts to \$48,025 for the fiscal year ended January 31, 1947, \$82,328 for the fiscal year ended January 31, 1946, \$116,632 for the fiscal year ended January 31, 1945 and \$355,815 for the fiscal year ended January 31, 1944.

C Reflects issuance of 400,000 shares of Class "A" stock.

D Reflects issuance of 80,000 shares of Common Stock.

ANNUAL REPORT
FOR YEAR ENDED JANUARY 31, 1947

April 28, 1947

To the Stockholders:

NEWS OF THE YEAR

I

This annual report states the financial condition, sales and earnings of your Company during the past year. It includes City Stores Company, individually, and consolidated with its subsidiaries, and statements of each subsidiary.

SALES

Sales of all units, wholly-owned or controlled, aggregated \$138,487,552, including sales of Richard Store Company, Miami, from August 23, 1946, date of acquisition. This record volume was accompanied by an increase in the number of sales transactions and higher average unit sales.

EARNINGS AND DIVIDENDS

Earnings for the year applicable to this Company were \$5,234,826, compared with \$2,824,127 for the preceding year. These earnings are equal to \$3.10 per share on 1,688,401 shares of combined Class A and Common stocks outstanding at January 31, 1947, compared with \$1.75 per share on 1,608,401 shares in the preceding year. In August, 1946, the outstanding Common stock was increased by 80,000 shares issued in exchange for the entire outstanding stock of Richard Store Company.

WFIL Broadcasting Company, a subsidiary of Lit Brothers, completed the sale of its radio equipment and franchises of its station. The net profit of \$860,504 applicable to this Company, being of a non-recurring nature, was transferred to surplus and is not included in the above earnings.

Dividends totaling \$1,736,821 were declared during the year. On November 1, 1946, the regular dividend was raised to an annual rate of \$1.20.

Inventories of merchandise on hand (except as to three subsidiary companies) are valued by the use of the "last-in, first-out" principle of determining cost. These inventories, representing over two-thirds of the total shown in the consolidated balance sheet, have been reduced under this conservative "lifo" principle by \$2,330,000 to January 31, 1947. Of that reserve \$1,020,000 was accumulated during the year ended January 31, 1947 by a charge against earnings for that year; after applying a tax reduction of approxi-

mately \$400,000 to which we are entitled because of this charge, the application of the conservative "lifo" principle of inventory valuation causes a net reduction of \$620,000 in the reported earnings for the year.

In addition to the important "lifo" reserves just mentioned the companies carry other valuation reserves against inventories aggregating \$643,673, and also reserves of \$960,000 for contingencies. Various types of operating reserves in substantial amounts also are carried.

IMPROVEMENTS IN FINANCIAL CONDITION

Highlights of the financial operations for the last ten years, including the present fiscal year, are summarized on page 3 of this report. The consolidated operating statement of the Company for three years, comparatively, is presented on page 8.

II

FINANCIAL PROGRAM

(Refinancing of Funded Debt)

On August 1st, 1946, The Chase National Bank of the City of New York and The First National Bank of Boston made a loan of \$7,500,000 to this Company at 2½% interest. The loan provided for minimum annual payments of \$500,000 beginning August 1, 1947 and on same date annually thereafter until August 1, 1955, inclusive, and the balance, if any, to be paid on August 1, 1956. The Company agreed to make further payments on August 1st of each year, commencing August 1, 1947, equal to 25% of the excess of \$3,000,000 of consolidated net profits for the previous year ending January 31st. The Company is privileged, under certain circumstances, to make annual optional prepayments on the loan. The purposes of the loan were to reduce interest charges, provide a more constructive way of meeting maturities and enable the New Orleans and Birmingham subsidiaries to pay off their mortgages.

(Liquidation of Mortgages)

During the year Richard Store Company liquidated its mortgage. Thus the centrally located main store properties owned by subsidiaries in New Orleans, Birmingham and Miami are now free and clear of all mortgage debt. The several mortgages on the Boston property and warehouse are in the process of being combined into a single mortgage loan of \$2,500,000, an increase of \$396,235. This will provide funds for structural improvements and establish a lower interest rate.

(WFIL Merger)

WFIL Broadcasting Co. changed its name to South Penn Square Corporation. Subsequently, Buttonwood Warehouse Co., also a wholly-owned subsidiary of Lit Brothers, was merged into South Penn Square Corporation. The continuing corporation paid off

CITY STORES COMPANY AND ITS SUBSIDIARIES

\$509,498, the remaining balance on a mortgage covering the warehouse used by Lit Brothers.

(R. H. White Preferred and Common Stocks)

The Company purchased a minority holding of 1,000 shares of the Common stock of R. H. White Corporation, making it a 100% owned subsidiary. The latter Corporation redeemed 1,000 shares of its Preferred stock held by City Stores Company at par plus accrued dividends. City Stores Company bought from R. H. White Realty Company 3,000 shares of 4% Cumulative Preferred stock at par, which funds were applied to the cost of improvements.

III

EXPANSION AND MODERNIZATION

Lit Brothers—Philadelphia

Important alterations and improvements to the main store building of Lit Brothers created a new area of 33,000 square feet (mainly selling space), and about 72,800 additional square feet of space have been altered, leveled off and improved.

To provide for expansion in the Northern section of the city when conditions warrant, Lit Brothers acquired property at 5704-20 North Broad Street and York Road, Philadelphia.

New Orleans

To accommodate growing population and new customer demands in suburban New Orleans, Maison Blanche Company leased in the Gentilly section of that city a new building which will be ready for operations during the current year. The capacity volume of the store warranted the making of a number of important improvements during the fiscal year in the fixtures, equipment and layout of the main store.

Boston

In order to provide a more effective handling of transactions, needed improvements and modernizations were made in the R. H. White property, including escalators from the third to the fifth floor and the leveling of the fourth and fifth floors.

Memphis

Lowenstein's Home Service, Inc., wholly-owned subsidiary of B. Lowenstein & Bros., Inc., completed installation of a new front and modern sales floor in its property at 202 Union Avenue, Memphis, and will operate an appliance and home furnishings business. It also entered into a lease for the land adjoining this property so as to afford parking facilities for customers and the general needs of its business.

Miami

The business which is now operated as Richard Store Company was started in 1896. The building was air conditioned during the fiscal year. To meet the constantly growing good-will of this business, the adjoining property was leased for 99 years. When costs are stabilized and it is timely to do so, your Directors will consider building on this site.

Oppenheim, Collins & Co., Inc.

To provide for future expansion, the Company leased the Southeast corner of 12th and Chestnut Streets, Philadelphia, adjoining the present store building.

To provide for expansion of its present operation in this area, the Company purchased a site in the new and exclusive Post Road shopping center of White Plains, New York, on the same block as its present store. Temporarily the property will be used for customer parking space.

The Company took over an existing lease and refitted a store in East Orange, New Jersey, and purchased an adjoining lot for customer parking space and further expansion.

The Company entered into a lease for a new completely air conditioned one-story building with selling basement at Morristown, New Jersey, which will be opened in the Summer of 1947. It will carry a full line of ready-to-wear and accessories for misses, women and children.

With its branches at White Plains, New York, Garden City, Long Island, East Orange and Morristown, New Jersey, the Company is now prepared to meet the shopping needs of suburban customers in the New York metropolitan area.

In addition to expansions by purchase or lease, as above outlined, infants' wear, children's wear and teen age apparel departments were installed and other departments enlarged and modernized in all of the main units.

CONCLUSION

In this most active year in the history of your Company, it will be seen that notable purposes were achieved. The loyal and cooperative help of our employees contributed to the attainment of the results.

The problems ahead are more in keeping with a peace-time economy than with a war period and its aftermath characterized by abnormally high national income and an under-supply of goods. The management of your Company will continually apply itself to the task which faces retailing—to render greater services to the people of the communities in which we operate by efficiently bringing more goods to more people at lower prices.

By order of the
Board of Directors.

ALBERT M. GREENFIELD,
Chairman of the Board.

SAUL COHN,
President.

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

COMPARATIVE CONSOLIDATED PROFIT AND LOSS STATEMENT*

THREE YEARS ENDED JANUARY 31, 1947

	Year Ended January 31, 1947	Year Ended January 31, 1946	Year Ended January 31, 1945
NET SALES—including sales of leased departments.....	\$138,487,552	\$100,672,187	\$76,721,832
COST OF GOODS SOLD—Note A.....	92,128,954	64,708,299	49,139,194
GROSS PROFIT ON SALES.....	\$ 46,358,598	\$ 35,963,888	\$27,582,638
INCOME FROM BROADCASTING AND ADJUSTMENTS FOR INSTALLMENT ACCOUNTS.....	105,793	1,019,464	981,739
TOTAL GROSS PROFIT.....	\$ 46,464,391	\$ 36,983,352	\$28,564,377
SELLING, ADMINISTRATIVE AND GENERAL EXPENSES.....	34,520,136	25,152,787	17,923,507
	\$ 11,944,255	\$ 11,830,565	\$10,640,870
OTHER INCOME:			
Interest.....	274,436	192,613	159,446
Rentals and miscellaneous.....	1,026,731	1,222,209	651,522
	\$ 13,245,422	\$ 13,245,387	\$11,451,838
OTHER DEDUCTIONS:			
Interest on City Stores Company's long term obligations	190,847	170,287	139,298
Interest on mortgages, notes payable, etc.....	268,975	500,545	373,498
Provision for depreciation and amortization.....	807,454	824,789	670,762
Non-recurring repairs and alterations.....	866,185	—0—	—0—
Cost of annuities purchased for pensioned employees of Lit Brothers.....	—0—	496,805	—0—
Provision for sundry charges, doubtful accounts, loss on disposal of equipment, etc. (net).....	344,747	171,420	254,740
TOTAL OTHER DEDUCTIONS.....	\$ 2,478,208	\$ 2,163,846	\$ 1,438,298
NET PROFIT BEFORE PROVISION FOR TAXES ON INCOME.....	\$ 10,767,214	\$ 11,081,541	\$10,013,540
FEDERAL AND STATE TAXES ON INCOME—ESTIMATED— Note G:			
Provision for current year:			
Federal normal income tax and surtax.....	4,297,728	1,114,816	957,105
Federal excess profits tax.....	—0—	3,300,550	6,211,400
State income tax.....	289,289	82,684	212,292
Adjustments of prior year.....	(181,826)	(4,886)	63,643
Portion of loss on sale of main store property of sub- sidiary company equivalent to taxes on income from operations of such subsidiary company for the current year thereby eliminated (Balance of loss— \$3,311,004.40—charged to surplus of such subsidiary)	—0—	3,150,000	—0—
	\$ 4,405,191	\$ 7,643,164	\$ 7,444,440
	\$ 6,362,023	\$ 3,438,377	\$ 2,569,100
Less amount applicable to preferred and common stocks of subsidiary companies not owned by City Stores Com- pany.....	1,127,197	614,250	437,462
PROFIT APPLICABLE TO CITY STORES COMPANY BEFORE MAKING PROVISION FOR CONTINGENCIES—Note G.	\$ 5,234,826	\$ 2,824,127	\$ 2,131,638
PROVISION FOR CONTINGENCIES:			
After deducting portions applicable to minority interest	48,025	82,328	116,632
BALANCE TRANSFERRED TO EARNED SURPLUS.....	\$ 5,186,801	\$ 2,741,799	\$ 2,015,006

Notes referred to above appear on pages 12 and 13.

*Includes operations of R. H. White Corporation and its subsidiary company from December 19, 1944; of Oppenheim, Collins & Co., Inc., and its subsidiary companies from October 20, 1945, and of Richard Store Company from August 23, 1946.

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED SURPLUS
YEAR ENDED JANUARY 31, 1947

EARNED SURPLUS:

Balance at February 1, 1946..... \$10,130,852.39

ADD:

Consolidated net profit applicable to City Stores Company..... \$5,186,801.18

Profit from sale of radio business (\$1,765,651.86) by a
 subsidiary company—less amount applicable to
 minority interest..... \$1,211,360.64

Less estimated taxes on income (\$511,400.00) appli-
 cable thereto—less amount applicable to minority
 interest..... 350,856.20 860,504.44

Sundry items—net..... 6,533.65 6,053,839.27
\$16,184,691.66

DEDUCT:

Dividends declared:

On Class A stock—\$1.05 per share..... \$ 420,000.00

On Common stock—\$1.05 per share..... 1,316,353.05 1,736,353.05

EARNED SURPLUS—BALANCE—JANUARY 31, 1947—Notes D and G..... \$14,448,338.61

CAPITAL SURPLUS:

Balance at February 1, 1946..... \$1,875,808.10

ADD:

Excess of capitalized value (\$15.23 per share) over par value of common
 stock issued in exchange for the capital stock of a subsidiary com-
 pany—Note F..... \$ 818,400.00

Excess of equity in net assets of a subsidiary company at date of ac-
 quisition over cost of its capital stock purchased—Note F..... 40,982.12

Sundry items—net..... 6,326.43 865,708.55

CAPITAL SURPLUS—BALANCE—JANUARY 31, 1947..... \$ 2,741,516.65

TOTAL SURPLUS—BALANCE—JANUARY 31, 1947..... \$17,189,855.26

Notes referred to above appear on pages 12 and 13.

CITY STORES COMPANY

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:

Cash.....		\$15,648,279.22
Marketable securities:		
United States Government securities—at cost and accrued interest....	\$ 845,281.79	
Other—at market and accrued interest.....	60,655.87	905,937.66
Accounts receivable from customers (including \$2,991,771.04 of installment accounts) less reserves of \$912,877.63.....		13,229,998.11
Accounts and notes receivable from vendors and tenants, less reserve of \$10,000.00.....		573,931.51
Merchandise inventories, less reserves of \$643,673.83 as shown in subsidiary companies' balance sheets—Note A.....		14,822,396.46
TOTAL CURRENT ASSETS.....		\$45,180,542.96

INVESTMENTS AND OTHER ASSETS:

Investments:

United States Government securities—at cost and accrued interest—Note B.....	\$ 255,796.88	
Capital stock of a parent company (approximate market value \$449,500.00)—at cost.....	145,525.00	
Mortgages receivable (including \$164,953.78 purchased through a parent company or other affiliates)	180,831.69	
Sundry investments, less reserves of \$10,020.87.....	206,584.25	\$ 788,737.82
Officers, employees and sundry notes and accounts receivable, deposits, etc. (\$10,000.00 due from officer of a subsidiary company secured by capital stock of a parent company).....	161,613.22	
Cash surrender value of life insurance.....	36,611.18	
Refundable taxes on income of prior years—estimated.....	359,099.65	1,346,061.87

LAND, BUILDINGS, EQUIPMENT AND IMPROVEMENTS—Note C:

Land.....		\$7,536,759.60
Buildings, fixtures and equipment.....	\$18,160,413.70	
Less reserves for depreciation.....	8,149,563.95	10,010,849.75
Improvements to leased properties.....	\$ 1,589,814.33	
Less reserves for amortization.....	397,225.26	1,192,589.07
Construction in progress and deposits on real estate and equipment.....	133,184.69	18,873,383.11

GOOD WILL (carried on books of subsidiaries in total amount of \$1,745,376.04)..... 1.00

DEFERRED CHARGES:

Inventories of supplies, prepaid insurance, taxes and expenses.....	971,944.04
	<u>\$66,371,932.98</u>

A N D S U B S I D I A R Y C O M P A N I E S

SHEET, JANUARY 31, 1947

LIABILITIES

CURRENT LIABILITIES:

Notes payable:		
Banks (including \$546,700.30 prepayment, based on earnings)	\$1,096,700.30	
Other	26,441.97	\$ 1,123,142.27
Mortgage installments due within one year (including \$12,000.00 due a parent company)		161,619.99
Accounts payable for merchandise, etc.		8,771,304.22
Accrued salaries, wages, taxes, interest, etc.		1,798,442.22
Dividends payable by parent company		506,520.30
Federal and state taxes on income—estimated—Note G	\$6,292,472.05	
Less United States Government tax notes purchased for payment of such taxes when due	663,790.08	5,628,681.97
TOTAL CURRENT LIABILITIES		\$17,989,710.97

LONG TERM OBLIGATIONS:

Notes payable—banks—2½%—payable in nine equal installments of \$500,000.00 on the 1st day of August in each year commencing August 1, 1947 and \$2,453,299.70 on August 1, 1956—Note D	\$7,500,000.00	
Less amount included in current liabilities above	1,046,700.30	\$6,453,299.70
Mortgages (including \$415,000.00 payable to a parent company)	\$5,315,154.72	
Less installments included in current liabilities above	161,619.99	5,153,534.73
Commission payable in three equal installments of \$20,000.00 on the 1st day of February in each year commencing February 1, 1948	60,000.00	11,666,834.43

RESERVES:

For redemption of trading stamps, self-insurance, etc.	\$1,184,446.95	
For contingencies	960,000.00	
For restoration of leased properties	441,899.00	
For income taxes on installment sales gross profit (deferred for tax purposes)—estimated	245,000.00	2,831,345.95

DEFERRED:

Unrealized gross profit and carrying charges on installment sales—Note E	\$ 260,375.52	
Sundry	20,293.94	280,669.46

MINORITY INTERESTS:

Preferred stock of subsidiary companies—at par	\$2,894,464.00	
Accrued undeclared dividends to January 31, 1947	295,046.22	
Common stock of subsidiary companies	1,300,812.00	
Surplus applicable thereto	3,481,189.69	7,971,511.91

CAPITAL STOCK AND SURPLUS:

Capital stock—par value \$5.00 per share:		
Class A—6% cumulative and participating:		
700,000 shares authorized	\$3,500,000.00	
300,000 shares unissued	1,500,000.00	
400,000 shares issued and outstanding	\$2,000,000.00	
Common:		
1,900,000 shares authorized	\$9,500,000.00	
609,957 8/12 shares unissued	3,049,788.34	
1,290,042 4/12 shares issued	\$6,450,211.66	
1,641 4/12 shares in treasury	8,206.66	
1,288,401 shares outstanding	6,442,005.00	
	\$8,442,005.00	
Surplus:		
Capital surplus—Note F	\$2,741,516.65	
Earned surplus (since February 1, 1935)—Notes D and G	14,448,338.61	17,189,855.26
		25,631,860.26
		<u>\$66,371,932.98</u>

Notes referred to above appear on pages 12 and 13.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 1947

NOTE A—Inventories of merchandise on hand and in transit are priced on the retail inventory method, using the principle (applied on the basis of independent published indices of price changes) of "last-in, first-out" in determination of cost, except as to three subsidiary companies, the inventories (totaling \$5,134,605.00) of which are stated generally on the basis of cost or market, whichever is lower as determined by the retail inventory method. The basis of "last-in, first-out", which has been adopted by the Company for the past six years, had the effect of reducing the amount stated for inventories at January 31, 1947 by \$2,590,000.00 and reducing net profit for the fiscal year then ended (after taxes on income and minority interest share) by approximately \$556,700.00. The provision for federal taxes on income has been made on the basis of using the principle of "last-in, first-out" for inventory valuation, which basis the Commissioner of Internal Revenue has proposed to disallow. If the Commissioner's position is sustained, the taxable income will be increased by approximately the aforementioned reduction of merchandise inventories (\$2,590,000.00) for the six fiscal years to which the "last-in, first-out" basis has been applied, with a resulting tax liability of approximately \$1,591,800.00, plus interest. The net effect on consolidated earned surplus would be an increase of approximately \$736,000.00, after deduction of minority interest share.

NOTE B—United States Government bonds in the principal amount of \$255,000.00 have been deposited with the lessor of the main store property by Lit Brothers, as security for the performance of the terms and conditions of the lease.

NOTE C—Stated at cost to subsidiary companies paid for either in cash or in capital stock at time of organization, except as to (1) Kaufman-Straus Company, Inc., where furniture, fixtures, improvements to leased properties, etc., are stated at sound value as determined in January, 1936, by The American Appraisal Company, plus subsequent additions at cost, (2) Kenville Realty Company, where land has been written down and (3) Oppenheim, Collins & Co., Inc., where furniture, fixtures and improvements are stated at nominal value of \$1.00 as at July 31, 1934 plus subsequent additions at cost.

Land, buildings and equipment of Richard Store Company are stated in the balance sheet of that Company at sound values as appraised by independent appraisers in 1939 less accumulated depreciation to January 31, 1947, which is \$450,602.84 in excess of cost. This excess has been eliminated in the consolidated balance sheet.

NOTE D—The loan agreement provides that in addition to the specified fixed annual payments on the notes, the Company shall, on or before August first in each year, commencing with the year 1947, apply to the prepayment, without premium, of the notes, an amount equal to 25% of the excess over \$3,000,000.00 of the consolidated net profit of the Company and its subsidiaries for the preceding fiscal year. Such prepayments shall be applied to the latest maturities under the notes. The Company has the right at any time to prepay all of the notes or from time to time to prepay a part of the notes; but only in each case in accordance with provisions enumerated in the loan agreement.

Until payment in full of the notes and interest thereon, unless the lending banks consent in writing to its doing otherwise, the Company covenants, among other

CITY STORES COMPANY AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

JANUARY 31, 1947

things, that it will (a) maintain consolidated current assets (as defined) in excess of consolidated current liabilities (as defined) at not less than \$16,000,000.00 and in a ratio of not less than 2 to 1 and (b) pay no dividends on any shares of the Company's capital stock (except dividends payable in shares of its capital stock) in an amount which would exceed Earnings Available for Dividends (as defined) subsequent to February 1, 1946. Such earnings available for dividends aggregated \$4,764,252.27 at January 31, 1947.

NOTE E—Deferred income from installment sales comprises (1) carrying charges not earned at January 31, 1947 on customers' installment sales as to three subsidiaries and (2) unearned carrying charges and unrealized gross profit on installment sales as to three other subsidiaries.

NOTE F—On August 23, 1946, City Stores Company acquired all of the outstanding capital stock of Richard Store Company in consideration of 80,000 shares of Common Stock and cash of \$4,000.00. The shares of Richard Store Company were recorded on the books of City Stores Company at \$1,222,400.00 consisting of a value of \$1,218,400.00 placed on the 80,000 shares of Common Stock issued (capitalized at \$15.23 per share, the average of the monthly mean weighted market prices of the Common Stock of the Company on the New York Stock Exchange over a two-year period) plus the aforementioned cash. The excess, \$818,400.00, of the aggregate value placed on the shares of Common Stock issued over the par value of such shares (\$400,000.00) was credited to capital surplus. The net assets of Richard Store Company exceeded the amount at which the investment was recorded by \$40,982.12, which amount has been added to consolidated capital surplus.

NOTE G—During the fiscal year ended January 31, 1946, Lit Brothers sold its main store property at a loss of \$6,461,004.40. As a result of the loss, no provision for taxes on income of Lit Brothers for that year was made, and refundable taxes on income of prior years were estimated in the sum of \$1,325,000.00 through application of the carry-back provisions of the Internal Revenue Code. Lit Brothers has received a ruling from the Bureau of Internal Revenue stating that any loss sustained on the sale of the property is deductible for tax purposes, but the amount of deductible loss is subject to final determination.

These statements are subject to adjustment, if any, upon final determination of liability for federal and state taxes on income, including the matters referred to above and in Note A.

NOTE H—Reference is made to the pertinent notes appearing on the accompanying balance sheets of City Stores Company and subsidiary companies.

ERNST & ERNST
19 RECTOR STREET
NEW YORK

BOARD OF DIRECTORS,
CITY STORES COMPANY,
WILMINGTON, DELAWARE.

We have examined the consolidated balance sheet of City Stores Company and subsidiaries and have examined (with the exception noted below) the balance sheets of the individual companies as of January 31, 1947, and the statements of profit and loss and surplus of City Stores Company and the consolidated statements of profit and loss and surplus of that Company and its subsidiaries for the fiscal year then ended; have reviewed the systems of internal control and the accounting procedures of the companies, and without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. The consolidated financial statements of Oppenheim, Collins & Co., Inc., and its subsidiary companies were not examined by us and have been incorporated in the accompanying consolidated financial statements on the basis of a report by other independent accountants.

Our examination included tests of accounts receivable by direct communication with a selected number of customers. We were present at stores at appropriate times during the taking of inventories and observed procedures followed by the companies in determination of quantities and made test counts of quantities.

In our opinion, the accompanying consolidated balance sheet and related statements of profit and loss and surplus, and the balance sheets of the individual companies examined by us, present fairly the consolidated position of City Stores Company and its subsidiaries and of the individual companies at January 31, 1947, and the consolidated results of their operations and of the operations of City Stores Company for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST

April 25, 1947.

PROFIT AND LOSS STATEMENT

YEAR ENDED JANUARY 31, 1947

INCOME:

Dividends from subsidiary companies—cash.....	\$2,316,329.32	
Payments by subsidiary companies for management, advisory and sales service, less amount of \$315,662.99 transferred to City Stores Mercantile Company, Inc. (a wholly owned subsidiary) for buying services..	354,342.01	
Miscellaneous, including interest from subsidiary companies of \$15,852.15	16,054.76	\$2,686,726.09

DEDUCTIONS:

General expenses.....	\$ 186,608.30	
Interest on long term notes payable.....	190,846.93	377,455.23

PROFIT BEFORE TAXES ON INCOME.....		\$2,309,270.86
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FEDERAL TAXES ON INCOME—estimated:

Provision for year.....	\$ 131,750.00	
Less overprovision for prior year.....	25.88	131,724.12

NET PROFIT FOR YEAR.....		\$2,177,546.74
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EARNED SURPLUS

Balance at February 1, 1946.....	\$3,863,925.86
Net profit for year.....	2,177,546.74
	\$6,041,472.60

Deduct dividends declared:

On Class A stock—\$1.05 per share.....	\$ 420,000.00	
On common stock—\$1.05 per share.....	1,316,821.05	1,736,821.05

BALANCE AT JANUARY 31, 1947—Notes C and D.....		\$4,304,651.55
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CAPITAL SURPLUS

Balance at February 1, 1946.....	\$1,060,685.45
Excess of capitalized value (\$15.23 per share) over par value of common stock issued in exchange for the capital stock of a subsidiary company—Note B.....	818,400.00
	\$1,879,085.45

The notes referred to appear on page 16

BALANCE SHEET,

ASSETS

INVESTMENTS IN AND NOTES AND ACCOUNTS RECEIVABLE FROM
SUBSIDIARY COMPANIES:

Investments in securities—Notes A and B:

City Stores Company proportion of net tangible assets of subsidiary companies based on their balance sheets at January 31, 1935, plus (a) subsequent acquisitions of capital stocks of subsidiaries at cost and (b) \$33,038.35 representing cancellation of subsidiary company's indebtedness to City Stores Company at January 31, 1937.....

\$20,736,409.99

Notes receivable and interest of \$3,333.34..... 1,203,333.34

Dividend receivable..... 62,500.00

Accounts receivable..... 15,609.36 \$22,017,852.69

CURRENT ASSETS:

Cash..... 792,991.22

OTHER ASSETS:

Investment in capital stock of Affiliated Retailers, Inc..... \$ 84,000.00

Sundry account receivable, etc..... 319.15 84,319.15

EQUIPMENT—AT COST:

Furniture and fixtures..... \$ 6,944.90

Less reserve for depreciation..... 1,824.19 5,120.71

DEFERRED CHARGES:

Prepaid insurance and expenses..... 420.76

NOTE A—City Stores Company proportion of net tangible assets of subsidiaries at January 31, 1947 amounted to \$31,742,527.25.

NOTE B—Reference is made to Note F of "Notes to Consolidated Financial Statements" with respect to the acquisition of Richard Store Company on August 23, 1946.

NOTE C—Reference is made to Note D of "Notes to Consolidated Financial Statements" with respect to certain provisions under the loan agreement.

NOTE D—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes on income.

\$22,900,704.53

JANUARY 31, 1947

LIABILITIES

CURRENT LIABILITIES:

Notes payable—banks:		
Installment due August 1, 1947.....	\$ 500,000.00	
Prepayment based on earnings due August 1, 1947.....	546,700.30	\$ 1,046,700.30
Accounts payable:		
Subsidiary companies.....	\$ 53,049.34	
For expenses, etc.....	17,670.26	70,719.60
Accrued taxes, etc.....		5,972.63
Dividends—payable February 1, 1947.....		506,520.30
Federal taxes on income—estimated—Note D.....		131,750.00
TOTAL CURRENT LIABILITIES.....		\$ 1,761,662.83

LONG TERM OBLIGATIONS:

Notes payable—banks—Note C:		
2½%—payable in nine equal installments of \$500,000.00		
on the 1st day of August in each year commencing		
August 1, 1947 and \$2,453,299.70 on August 1, 1956	\$7,500,000.00	
Less amount included in current liabilities above.....	1,046,700.30	\$6,453,299.70
Commission payable in three equal installments of \$20,000.00 on the		
1st day of February in each year commencing February 1, 1948.....	60,000.00	6,513,299.70

CAPITAL STOCK AND SURPLUS:

Capital stock—par value \$5.00 per share:		
Class A—6% cumulative and participating:		
700,000 shares authorized.....	\$3,500,000.00	
300,000 shares unissued.....	1,500,000.00	
400,000 shares issued and outstanding.....		\$2,000,000.00
Common:		
1,900,000 shares authorized.....	\$9,500,000.00	
609,957 8/12 shares unissued.....	3,049,788.34	
1,290,042 4/12 shares issued.....	\$6,450,211.66	
1,641 4/12 shares in treasury.....	8,206.66	
1,288,401 shares outstanding.....		6,442,005.00
		\$8,442,005.00
Surplus:		
Capital surplus—Note B.....	\$1,879,085.45	
Earned surplus (since February 1, 1935)—Notes C and D	4,304,651.55	6,183,737.00
		14,625,742.00
		\$22,900,704.53

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:

Cash.....			\$ 9,947,714.84
United States Government securities—at cost and accrued interest.....			324,856.88
Accounts receivable:			
Trade—including installment accounts of \$1,803,964.17	\$5,673,284.43		
Creditors' debit balances.....	106,181.54	\$5,779,465.97	
Less reserve.....		400,000.00	5,379,465.97
Merchandise inventories—Note A.....			3,532,104.88
TOTAL CURRENT ASSETS.....			\$19,184,142.57

INVESTMENTS AND OTHER ASSETS:

Securities—at cost:			
United States Government securities and accrued interest—Note C.....	\$ 255,796.88		
Capital stock of a parent company (indicated market value \$367,000.00).....	124,525.00		
Sundry investments.....	36,604.00	\$ 416,925.88	
Mortgages receivable (including \$164,953.78 purchased through a parent company or other affiliates).....		180,831.69	
Sundry accounts receivable and deposits.....		77,989.46	
Officer's note receivable (secured by capital stock of a parent company).....		10,000.00	
Refundable income and excess profits taxes of prior years.....		284,977.18	970,724.21

PROPERTY, PLANT AND EQUIPMENT—AT COST:

Land, buildings, fixtures and equipment.....	\$6,884,171.52		
Less reserves for depreciation.....	1,943,939.21	\$4,940,232.31	
Leasehold improvements.....	\$ 744,753.33		
Less amortization.....	16,550.07	728,203.26	
Deposits on real estate and equipment.....		32,737.55	5,701,173.12

GOOD WILL..... 1.00

DEFERRED CHARGES:

Prepaid rent, expenses and inventory of supplies.....	217,069.51
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NOTE A—Inventories of merchandise on hand and in transit are priced on the retail inventory method, using the principle (applied on the basis of independent published indices of price changes) of "last-in, first-out" in determination of cost. The basis of "last-in, first-out", which has been adopted by the Company for the past six years, had the effect of reducing the amount stated for inventories at January 31, 1947 by \$1,315,000.00 and reducing net profit for the fiscal year then ended (after taxes on income) by approximately \$314,500.00. The provision for federal taxes on income has been made on the basis of using the principle of "last-in, first-out" for inventory valuation, which basis the Commissioner of Internal Revenue has proposed to disallow. If the Commissioner's position is sustained the taxable income will be increased by approximately the aforementioned reduction of merchandise inventories (\$1,315,000.00) for the six fiscal years to which the "last-in, first-out" basis has been applied, with a resulting tax liability of approximately \$875,000.00, plus interest. The net effect on earned surplus would be an increase of approximately \$369,000.00.

NOTE B—During the fiscal year ended January 31, 1946, the Company sold its main store property at a loss of \$6,461,004.40. As a result of the loss, no provision for taxes on income of the Company for that year was made, and refundable taxes on income of prior years were estimated in the sum of \$1,325,000.00 through application of carry-back provisions of the Internal Revenue Code. The Company has received a ruling from the Bureau of Internal Revenue stating that any loss sustained on the sale of the property is deductible for tax purposes, but the amount of deductible loss is subject to final determination. Until settlement of the aforementioned loss and the method of determining cost of inventories (Note A), the ultimate amount of the Company's income and excess profits taxes for all years subsequent to January 31, 1941, is subject to final determination.

NOTE C—U. S. Government bonds in the principal amount of \$255,000.00 have been deposited with the lessor of the main store property, as security for the performance of the terms and conditions of the lease.

NOTE D—Accumulated unpaid and undeclared dividends on the preferred 6% cumulative stock at January 31, 1947, amounted to \$10.50 per share.

\$26,073,110.41

SUBSIDIARY COMPANIES

SHEET, JANUARY 31, 1947

LIABILITIES

CURRENT LIABILITIES:

First mortgage installments maturing within one year.....	\$	26,028.56	
Accounts payable.....		2,998,704.17	
Accrued accounts.....		202,474.28	
Dividends payable.....		4,159.68	
Federal and state taxes on income—estimated—Notes A and B.....		2,884,362.93	
TOTAL CURRENT LIABILITIES.....	\$	6,115,729.62	

RESERVES:

For redemption of trading stamps.....	\$	870,860.01	
For income taxes on installment sales gross profit (deferred for tax purposes)—estimated.....		245,000.00	
For contingencies.....		660,000.00	
For self-insurance.....		89,836.56	1,865,696.57

FIRST MORTGAGE ON LAND AND BUILDINGS:

Due quarterly 1947 to 1955.....	\$1,241,000.30	
Less principal installments maturing within one year (as above).....	26,028.56	1,214,971.74

DEFERRED CREDITS:

Unearned carrying charges on installment sales.....	\$	71,443.09	
Prepaid rents.....		1,381.51	72,824.60

CAPITAL STOCK AND SURPLUS:

Capital stock:

Preferred 6% cumulative, par value \$100.00 per share; redeemable at \$105.00 per share—Note D:

Authorized and issued 120,000 shares; outstanding 88,219.64 shares after deducting 31,780.36 shares in treasury..... \$8,821,964.00

Common, no par value:

Authorized and issued 1,000,000 shares; outstanding 999,145 shares after deducting 855 shares in treasury..... 999,145.00

TOTAL CAPITAL STOCK..... \$9,821,109.00

Surplus:

Capital.....	\$	80,133.83	
Earned—Notes A and B.....		6,902,645.05	6,982,778.88
			16,803,887.88
			<u>\$26,073,110.41</u>

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS:

Cash.....	\$ 521,588.33	
United States Government securities—at cost and accrued interest	11,640.00	
Accounts receivable—trade (including \$234,552.47 of installment accounts) less reserve of \$142,443.23.....	1,953,674.77	
Accounts and notes receivable—tenants, less reserve of \$10,000.00.....	12,277.61	
Merchandise inventories, less reserve of \$40,000.00—Note A.....	2,952,419.68	
TOTAL CURRENT ASSETS.....	\$5,451,600.39	

AFFILIATED COMPANIES:

Accounts receivable.....	2,168.38	
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INVESTMENTS AND OTHER ASSETS:

Investments:

Capital stock of a parent company (approximate market value \$82,500.00) \$	21,000.00	
Capital stock of City Stores Company—book carrying amount of 94 shares of common stock.....	470.01	
Investments in other companies.....	65,719.37	
Sundry accounts receivable, advances and cash in closed banks, less reserve of \$482.23.....	30,459.12	117,648.50

INVESTMENT IN AND ACCOUNT RECEIVABLE FROM SUBSIDIARY COMPANY:

B. Lowenstein & Bros., Inc.:

Investment in 11,450 shares of common stock (its entire outstanding capital stock)—at cost—(net tangible assets as shown by that subsidiary company's consolidated balance sheet at January 31, 1947 amounted to \$2,338,570.33).....	\$2,219,411.38	
Account receivable.....	72.16	2,219,483.54

LAND, BUILDINGS AND EQUIPMENT—AT COST:

Land.....	\$1,266,616.45	
Buildings, fixtures and equipment.....	\$3,975,055.35	
Less reserves for depreciation.....	2,112,604.36	1,862,450.99
Improvements to leased property.....	\$ 552,089.06	
Less reserve for amortization.....	243,939.49	308,149.57
		3,437,217.01

GOOD WILL—as stated on books.....	376,031.24
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DEFERRED CHARGES:

Inventory of supplies, prepaid insurance, taxes and expenses.....	227,141.51
	<u>\$11,831,290.57</u>

CONSOLIDATED SUBSIDIARY COMPANY

SHEET, JANUARY 31, 1947

LIABILITIES

CURRENT LIABILITIES:

Notes payable:

Note payable.....	\$ 16,552.38	
Installments on note payable to City Stores Company.....	80,000.00	
Purchase mortgage note due in 1947.....	10,000.00	\$ 106,552.38

Accounts payable.....		2,082,205.07
Accrued salaries, taxes, interest and expenses.....		178,794.47
Federal and state taxes on income—estimated—Note B.....		737,662.09

TOTAL CURRENT LIABILITIES.....		\$3,105,214.01
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LONG TERM OBLIGATIONS:

Note payable—2½%—payable \$40,000.00 semi-annually— maturing January 15, 1957—payable to City Stores Company.....	\$ 800,000.00	
Less installments included in current liabilities above.....	80,000.00	\$ 720,000.00
Purchase mortgage notes—4½%—payable \$10,000.00 on July 15, 1947 and July 15, 1948, and \$5,000.00 due July 15, 1949.....	\$ 25,000.00	
Less note included in current liabilities above.....	10,000.00	15,000.00
		735,000.00

RESERVES:

For self-insurance.....	\$ 27,100.00	
For contingencies.....	75,000.00	102,100.00

DEFERRED INCOME:

Unrealized gross profit and carrying charges on installment sales.....		92,635.07
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MINORITY INTEREST:

Common stock of subsidiary company.....	\$ 4,000.00	
Surplus applicable thereto.....	4,770.59	8,770.59

CAPITAL STOCK AND SURPLUS:

Capital stock:

Common stock—par value \$50.00 per share:	
Authorized 120,000 shares; issued 80,000 shares.....	\$4,000,000.00

Surplus:

Capital surplus.....	\$ 250,000.00	
Earned surplus—Note B.....	3,537,570.90	3,787,570.90
		7,787,570.90

NOTE A—Inventories of merchandise on hand and in transit are priced on the retail inventory method, using the principle (applied on the basis of independent published indices of price changes) of "last-in, first-out" in determination of cost. The basis of "last-in, first-out", which has been adopted by the Company for the past six years, had the effect of reducing the amount stated for inventories at January 31, 1947 by \$547,395.58 and reducing net profit for the fiscal year then ended (after taxes on income) by approximately \$127,000.00. The provision for federal taxes on income has been made on the basis of using the principle of "last-in, first-out" for inventory valuation, which basis the Commissioner of Internal Revenue has proposed to disallow. If the Commissioner's position is sustained the taxable income will be increased by approximately the aforementioned reduction of merchandise inventories (\$547,395.58) for the six fiscal years to which the "last-in, first-out" basis has been applied, with a resulting tax liability of approximately \$303,100.00, plus interest. The net effect on earned surplus would be an increase of approximately \$215,000.00.

NOTE B—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income including the matter referred to in Note A above.

\$11,831,290.57

B. LOWENSTEIN & BROS., INC. AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET

JANUARY 31, 1947

ASSETS

CURRENT ASSETS:

Cash.....	\$ 837,437.87
Accounts receivable—trade (including \$161,596.33 of installment accounts) less reserve of \$75,000.00.....	1,184,774.44
Merchandise inventories, less reserve of \$100,000.00—Note A.....	1,360,107.60

TOTAL CURRENT ASSETS.....	\$3,382,319.91
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AFFILIATED COMPANIES:

Accounts receivable.....	8,298.13
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INVESTMENTS AND OTHER ASSETS:

Sundry investments, less reserve of \$2,269.67.....	\$ 251.00	
Employees and sundry notes and accounts receivable.....	14,127.63	14,378.63

LAND, BUILDING AND EQUIPMENT—AT COST:

Land, including \$32,655.95 acquired for future expansion.....	\$ 52,655.95	
Building, fixtures and equipment.....	\$1,428,193.71	
Less reserves for depreciation.....	893,028.18	535,165.53
Improvements to leased property.....	\$ 118,308.33	
Less reserve for amortization.....	65,071.82	53,236.51
		641,057.99

GOOD WILL—as stated on books.....	150,000.00
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DEFERRED CHARGES:

Inventory of supplies, prepaid insurance, taxes and expenses.....	91,676.36
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\$4,287,731.02

LIABILITIES

CURRENT LIABILITIES:

Notes payable:		
Bank.....	\$ 50,000.00	
Other.....	9,889.59	\$ 59,889.59
Accounts payable, including \$72.16 to affiliated company.....		1,242,784.05
Accrued salaries, taxes and expenses.....		99,032.64
Federal taxes on income—estimated—Note B.....		310,200.00

TOTAL CURRENT LIABILITIES.....	\$1,711,906.28
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RESERVES:

For self-insurance.....	\$ 11,500.00	
For contingencies.....	25,000.00	36,500.00

DEFERRED INCOME:

Unrealized gross profit and carrying charges on installment sales.....	50,754.41
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CAPITAL STOCK AND SURPLUS:

Capital stock:		
Common stock—no par value; declared value \$100.00 per share:		
Authorized 15,000 shares; issued 11,450 shares.....	\$1,145,000.00	
Surplus:		
Capital surplus.....	\$ 414,719.33	
Earned surplus (since October 1, 1938)—Note B.....	928,851.00	1,343,570.33
		2,488,570.33
		<u>\$4,287,731.02</u>

NOTE A—Inventories of merchandise on hand and in transit are priced on the retail inventory method, using the principle (applied on the basis of independent published indices of price changes) of "last-in, first-out" in determination of cost. The basis of "last-in, first-out", which has been adopted by the Company for the past six years, had the effect of reducing the amount stated for inventories at January 31, 1947 by \$269,316.20 and reducing net profit for the fiscal year then ended (after taxes on income) by approximately \$88,300.00. The provision for federal taxes on income has been made on the basis of using the principle of "last-in, first-out" for inventory valuation, which basis the Commissioner of Internal Revenue has proposed to disallow. If the Commissioner's position is sustained the taxable income will be increased by approximately the aforementioned reduction of merchandise inventories (\$269,316.20) for the six fiscal years to which the "last-in, first-out" basis has been applied, with a resulting tax liability of approximately \$159,800.00, plus interest. The net effect on earned surplus would be an increase of approximately \$89,000.00.

NOTE B—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes on income including the matter referred to in Note A above.

LOVEMAN, JOSEPH & LOEB AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET, JANUARY 31, 1947

CURRENT ASSETS:		ASSETS		
Cash.....				\$1,333,759.86
Accounts receivable—trade (including \$159,422.45 of installment accounts) less reserve of \$150,000.00.....				1,161,592.54
Merchandise inventories, less reserve of \$229,412.83—Note A.....				1,042,313.38
TOTAL CURRENT ASSETS.....				\$3,537,665.78
AFFILIATED COMPANIES:				
Accounts receivable.....				10,561.86
INVESTMENTS AND OTHER ASSETS:				
Investments:				
In parent company—at cost (426 shares of common stock of City Stores Company).....	\$ 4,695.75			
Sundry, less reserve of \$5,891.20.....	3,847.12	\$ 8,542.87		
Cash surrender value of life insurance.....		36,611.18		
Sundry accounts receivable, etc.....		8,784.31	53,938.36	
LAND, BUILDINGS AND EQUIPMENT—Note B:				
Land.....		\$1,004,465.96		
Buildings, equipment, furniture, fixtures, etc.....	\$1,608,970.21			
Less reserves for depreciation.....	687,966.64	921,003.57	1,925,469.53	
GOOD WILL—as stated on books.....			800,000.00	
DEFERRED CHARGES:				
Inventory of supplies, prepaid insurance, taxes, etc.....			44,150.92	
			<u>\$6,371,786.45</u>	
CURRENT LIABILITIES:		LIABILITIES		
Accounts payable.....			\$ 668,387.58	
Mortgage installments due in 1947.....			11,026.24	
Accrued salaries and taxes.....			131,353.06	
Federal and state taxes on income—estimated—Note F.....			810,244.43	
TOTAL CURRENT LIABILITIES.....			\$1,621,011.31	
LONG TERM OBLIGATIONS:				
Note Payable—2½%—due August 1, 1956—payable to City Stores Company \$ 400,000.00				
Real estate mortgage—3½%—payable in 163 monthly installments of \$1,429.77 each—applicable to principal and interest \$ 185,269.88				
Less installments included in current liabilities above....	9,927.33	175,342.55		
Real estate mortgage—4%—payable in 135 monthly installments of \$147.94 each—applicable to principal and interest.....	\$ 14,907.45			
Less installments included in current liabilities above.....	1,098.91	13,808.54	589,151.09	
RESERVES:				
For special compensation, pensions, etc.....		\$ 155,326.29		
For contingencies.....		25,000.00	180,326.29	
CAPITAL STOCK AND SURPLUS:				
Capital stock—par value \$100.00 per share:				
Preferred stock—7% cumulative—redeemable at \$120.00 per share—Note D:				
Authorized and issued 10,000 shares.....	\$1,000,000.00			
Less 9,993 shares in treasury and 7 shares called for redemption.....	1,000,000.00	\$ —0—		
Common stock:				
Authorized 20,000 shares.....	\$2,000,000.00			
Less unissued 3,780 shares.....	378,000.00	1,622,000.00		
Earned surplus—Notes E and F.....		2,359,297.76	3,981,297.76	
			<u>\$6,371,786.45</u>	

NOTE A—Inventories of merchandise on hand and in transit are priced on the retail inventory method, using the principle (applied on the basis of independent published indices of price changes) of "last-in, first-out" in determination of cost. The basis of "last-in, first-out," which has been adopted by the Company for the past six years, had the effect of reducing the amount stated for inventories at January 31, 1947 by \$311,310.82 and reducing net profit for the fiscal year then ended (after taxes on income) by approximately \$83,600.00. The provision for federal taxes on income has been made on the basis of using the principle of "last-in, first-out" for inventory valuation, which basis the Commissioner of Internal Revenue has proposed to disallow. If the Commissioner's position is sustained the taxable income will be increased by approximately the aforementioned reduction of merchandise inventories (\$311,310.82) for the six fiscal years to which the "last-in, first-out" basis has been applied, with a resulting tax liability of approximately \$187,100.00, plus interest. The net effect on earned surplus would be an increase of approximately \$105,000.00.

NOTE B—Land stated at cost paid for in cash or capital stock at time of organization; buildings, fixtures, and equipment stated at cost less accumulated depreciation.

NOTE C—All gross profit and carrying charges on installment sales are taken into income in the year in which the sales are made.

NOTE D—In accordance with resolution of the Board of Directors on January 23, 1946, all outstanding preferred stock of the parent company at May 1, 1946, was called for redemption at \$120.00 per share plus accrued dividends to that date. With the exception of 7 shares of preferred stock, the liability for which has been reflected in this consolidated balance sheet, all preferred stock outstanding at the call date had been redeemed by the parent company at January 31, 1947.

NOTE E—Restricted in the amount of \$1,000,000.00 representing the par value of preferred shares held in treasury or called for redemption.

NOTE F—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income including the matter referred to in Note A above.

R. H. WHITE CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET

JANUARY 31, 1947

CURRENT ASSETS:		ASSETS	
Cash.....		\$	810,297.96
Accounts receivable—trade (including \$525,577.79 of installment accounts) less reserve of \$53,720.52.....			2,076,099.44
Merchandise inventories—at lower of cost or market as determined by the retail inventory method.....			2,323,682.37
TOTAL CURRENT ASSETS.....			\$5,210,079.77
AFFILIATED COMPANIES:			
Accounts receivable.....			15,342.12
INVESTMENTS AND OTHER ASSETS:			
Sundry investments.....	\$	4,960.00	
Sundry accounts receivable.....		15,513.17	20,473.17
LAND, BUILDINGS AND EQUIPMENT—AT COST:			
Land.....		\$1,469,013.88	
Buildings, fixtures and equipment.....	\$1,612,341.22		
Less reserves for depreciation.....	183,536.65	1,428,804.57	
Improvements to leased properties.....	\$ 8,368.56		
Less reserve for amortization.....	1,908.74	6,459.82	2,904,278.27
DEFERRED CHARGES:			
Inventory of supplies, prepaid insurance and expenses.....			110,604.69
			<u>\$8,260,778.02</u>
CURRENT LIABILITIES:		LIABILITIES	
Accounts payable.....		\$	748,946.17
Mortgage installments due in 1947.....			60,384.02
Accrued salaries, taxes and expenses.....			231,800.93
Federal taxes on income—estimated—Note.....			406,223.37
TOTAL CURRENT LIABILITIES.....			\$1,447,354.49
LONG TERM OBLIGATIONS:			
Mortgage note—4%—payable \$30,000.00 annually—maturing February 1, 1959.....	\$1,290,000.00		
Less installment included in current liabilities above.....	30,000.00	\$1,260,000.00	
Mortgage note—4%—\$12,000.00 payable in 1947—maturing March 1, 1948—due to a parent company.....	\$ 415,000.00		
Less installment included in current liabilities above.....	12,000.00	403,000.00	
Mortgage note—4%—payable \$2,833.33 monthly—applicable to principal and interest—maturing July 15, 1960.....	\$ 398,764.53		
Less installments included in current liabilities above.....	18,384.02	380,380.51	2,043,380.51
RESERVE:			
For restoration of leased properties.....			441,899.00
DEFERRED INCOME:			
Unearned carrying charges on installment sales.....			18,399.12
MINORITY INTEREST:			
Preferred stock of subsidiary company—at par (owned by City Stores Company).....			300,000.00
CAPITAL STOCK AND SURPLUS:			
Capital stock:			
Preferred 6% cumulative—par value \$100.00 per share:			
Authorized and issued 25,000 shares.....	\$2,500,000.00		
Less 1,000 shares in treasury.....	100,000.00		
	<u>\$2,400,000.00</u>		
Common—no par value:			
Authorized and issued 10,000 shares.....	1,000,000.00	\$3,400,000.00	
Earned surplus.....		609,744.90	4,009,744.90
			<u>\$8,260,778.02</u>

NOTE—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes on income.

KAUFMAN - STRAUS COMPANY, INC. AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET

JANUARY 31, 1947

ASSETS

CURRENT ASSETS:

Cash.....	\$ 387,817.50
Accounts receivable—trade (including \$79,244.26 of installment accounts) less reserve of \$45,000.00.....	558,902.33
Merchandise inventories, less reserve of \$10,000.00—Note A.....	795,978.72
TOTAL CURRENT ASSETS.....	\$1,742,698.55

AFFILIATED COMPANIES:

Accounts receivable.....	7,993.05
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INVESTMENTS AND OTHER ASSETS:

Sundry investments.....	\$ 503.00
Employee and sundry accounts receivable.....	4,455.56
Claim for refund of surtax on undistributed profits.....	9,122.47
	14,081.03

EQUIPMENT AND IMPROVEMENTS—Note B:

Furniture, fixtures and other equipment.....	\$302,264.47	
Less reserves for depreciation.....	180,565.74	\$121,698.73
Improvements to leased buildings.....	\$159,465.05	
Less reserve for amortization.....	66,915.85	92,549.20
		214,247.93

GOOD WILL—as stated on books.....	419,343.80
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DEFERRED CHARGES:

Inventory of supplies, prepaid insurance, taxes and expenses.....	46,283.51
	<u>\$2,444,647.87</u>

LIABILITIES

CURRENT LIABILITIES:

Accounts payable, including \$2,481.60 to affiliated companies.....	\$ 541,443.86
Accrued salaries, taxes and expenses.....	52,054.52
Federal and state taxes on income—estimated—Note C.....	\$193,841.64
Less United States tax notes purchased for payment of such taxes when due.....	70,165.00
	123,676.64
TOTAL CURRENT LIABILITIES.....	\$ 717,175.02

DEFERRED INCOME:

Unrealized gross profit and carrying charges on installment sales.....	25,193.55
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RESERVE:

For contingencies.....	25,000.00
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CAPITAL STOCK AND SURPLUS:

Capital stock:

Preferred stock—7% cumulative—par value \$100.00 per share:	
Authorized and issued—10 shares.....	\$ 1,000.00
Less purchased for retirement—10 shares.....	1,000.00
	\$ —0—
Preferred stock—5%—cumulative—par value \$100.00 per share:	
Authorized 2,422 shares; issued 2,395 shares.....	\$239,500.00
Less retired 1,550 shares.....	155,000.00
	84,500.00
Common stock—par value \$100.00 per share:	
Authorized and issued 8,000 shares.....	800,000.00
	<u>\$884,500.00</u>

Surplus:

Capital surplus.....	\$240,930.31	
Earned surplus (since February 1, 1940)—Note C.....	551,848.99	792,779.30
		<u>1,677,279.30</u>
		<u>\$2,444,647.87</u>

NOTE A—Inventories of merchandise on hand and in transit are priced on the retail inventory method, using the principle (applied on the basis of independent published indices of price changes) of "last-in, first-out" in determination of cost. The basis of "last-in, first-out", which has been adopted by the Company for the past six years, had the effect of reducing the amount stated for inventories at January 31, 1947 by \$147,025.20 and reducing net profit for the fiscal year then ended (after taxes on income) by approximately \$42,000.00. The provision for federal taxes on income has been made on the basis of using the principle of "last-in, first-out" for inventory valuation, which basis the Commissioner of Internal Revenue has proposed to disallow. If the Commissioner's position is sustained the taxable income will be increased by approximately the aforementioned reduction of merchandise inventories (\$147,025.20) for the six fiscal years to which the "last-in, first-out" basis has been applied, with a resulting tax liability of approximately \$67,000.00, plus interest. The net effect on earned surplus would be an increase of approximately \$74,000.00.

NOTE B—Stated at sound values as determined in January, 1936, by The American Appraisal Company, plus subsequent additions at cost, less accumulated depreciation and amortization.

NOTE C—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal and state taxes on income, including the matter referred to in Note A above.

CONSOLIDATED BALANCE SHEET

A S S E T S

CURRENT ASSETS:

Cash on hand and in banks.....	\$ 669,686.94
United States Government securities—at cost—and accrued interest (market quotation \$419,597.42).....	408,472.42
Marketable securities—at market quotation plus accrued interest.....	60,655.87
Accounts receivable, customers and miscellaneous, less reserve for doubtful accounts....	1,283,536.47
Merchandise inventory—valued at the lower of cost or market based upon the retail inventory method, less reserve for discount.....	1,848,270.91
Merchandise in transit—at invoice cost.....	211,808.48
TOTAL CURRENT ASSETS.....	\$4,482,431.09

OTHER ASSETS:

Rent deposit.....	\$ 10,000.00	
Sundry investments.....	5,534.00	
Estimated claims for refund of prior years' Federal taxes on income under carry-back provision of the Revenue Act—Note B.....	65,000.00	
Due from leased department—non-current.....	14,400.00	94,934.00

FIXED ASSETS:

Land and buildings—at cost—subject to mortgages payable—shown contra—Note A:		
Land.....	\$1,665,085.91	
Buildings.....	\$2,565,759.25	
Less: Reserve for depreciation.....	1,484,125.24	1,081,634.01
		<u>\$2,746,719.92</u>
Furniture and fixtures and improvements of parent company at July 31, 1934, nominal value of \$1.00, plus subsequent additions at cost.....	\$ 901,108.68	
Less: Reserves for depreciation and amortization...	448,199.51	452,909.17
Construction in progress.....	100,447.14	3,300,076.23
DEFERRED CHARGES.....		156,698.28
		<u>\$8,034,139.60</u>

NOTE A—The assets of the wholly-owned subsidiaries consist primarily of land and buildings at a depreciated value of \$2,626,357.50 which are subject to mortgages aggregating \$1,745,212.56, of which installments aggregating \$54,181.17 are due within one year. Such subsidiaries are the primary obligors on the bonds secured by the mortgages, and Oppenheim, Collins & Co., Inc., is not liable thereunder.

NOTE B—The accompanying statement is subject to final determination of Federal, state and local taxes.

The corporation filed consolidated Federal tax returns for the year ended July 31, 1945. In the computation of the provision for Federal taxes on income for the year then ended, a loss of \$1,033,111.30 on the sale of real estate by a subsidiary was taken as a deduction. If it were not for such deduction, the provision for Federal taxes on income would have been approximately \$805,000.00 greater and the corporation would not have been entitled to file claims for refund of approximately \$65,000.00 under the carry-back provision of the Revenue Act.

NOTE C—The Profit-Sharing Plan adopted by stockholders of the corporation on June 27, 1944, for the exclusive benefit of its employees, was terminated by action of the Board of Directors of the corporation on March 20, 1946, effective as of April 25, 1946. The corporation has been advised by its counsel that, in their opinion, there is no liability for contributions to such plan with respect to the period subsequent to July 31, 1945. It is the opinion of the corporation that it can sustain the deduction for tax purposes of the amounts contributed to such plan for the years ended July 31, 1944 and 1945.

AND WHOLLY-OWNED SUBSIDIARIES

AS AT JANUARY 31, 1947

LIABILITIES

CURRENT LIABILITIES:

Accounts payable—merchandise—net.....	\$ 125,325.02	
Accounts payable—merchandise in transit.....	211,808.48	
Sundry accounts payable and accrued expenses.....	551,954.69	
Mortgage installments payable within one year.....	54,181.17	
Reserve for Federal taxes on income—Note B.....	\$ 593,625.08	
Less: United States Treasury Notes—Series C (at cost), plus accrued interest.....	593,625.08	—

TOTAL CURRENT LIABILITIES..... \$ 943,269.36

MORTGAGES PAYABLE IN INSTALLMENTS THROUGH 1954—Note A.....	\$1,745,212.56	
Less: Current installments shown above.....	54,181.17	1,691,031.39

TOTAL LIABILITIES..... 2,634,300.75

DEFERRED CREDIT TO EXPENSE, ETC.....	16,634.67
RESERVE FOR INSURANCE.....	29,824.09
RESERVE FOR CONTINGENCIES.....	150,000.00

CAPITAL STOCK—PAR VALUE \$10.00 PER SHARE:

Authorized and issued..... 220,000 shares.....	\$2,200,000.00	
Less: Held in treasury... 20,037 shares.....	200,370.00	
Outstanding..... <u>199,963</u> shares.....		1,999,630.00

SURPLUS:

Initial and capital surplus.....	\$1,655,709.36	
Earned surplus—Notes B and C.....	1,548,040.73	3,203,750.09
		<u>\$8,034,139.60</u>

S. D. LEIDESDORF & CO.
CERTIFIED PUBLIC ACCOUNTANTS
125 PARK AVENUE
NEW YORK

TO THE BOARD OF DIRECTORS,
 OPPENHEIM, COLLINS & CO., INC.,
 NEW YORK, N. Y.

We have examined the consolidated balance sheet of Oppenheim, Collins & Co., Inc. (a Delaware corporation) and wholly-owned subsidiaries as at January 31, 1947. In connection therewith, we have reviewed the system of internal control and accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

We made a review of inventory methods and procedures and had representatives present during the taking of the inventories. We made substantial tests of the quantities recorded and also test-checked prices and mathematical calculations. A test-check of accounts receivable was made by direct correspondence with customers.

In our opinion, the accompanying consolidated balance sheet, together with the Notes to Consolidated Balance Sheet, fairly presents the financial position of Oppenheim, Collins & Co., Inc. (a Delaware corporation) and wholly-owned subsidiaries as at January 31, 1947, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.
 April 17, 1947.

S. D. LEIDESDORF & CO.

RICHARD STORE COMPANY

BALANCE SHEET

JANUARY 31, 1947

ASSETS

CURRENT ASSETS:

Cash.....				\$ 284,683.19
United States Government securities—at cost and accrued interest.....				100,312.49
Accounts receivable—trade (including \$27,413.57 of installment accounts) less reserve of \$10,000.00.....				187,703.85
Merchandise inventories—at lower of cost or market as determined by the retail inventory method, less reserve of \$150,000.00.....				750,843.24
TOTAL CURRENT ASSETS.....				\$1,323,542.77

AFFILIATED COMPANIES:

Accounts receivable.....				4,586.51
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OTHER ASSETS:

Sundry accounts receivable, etc.....				8,022.74
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LAND, BUILDINGS AND EQUIPMENT—Note A:

Land.....		\$ 229,900.00		
Buildings, fixtures and equipment.....	\$1,201,128.86			
Less reserves for depreciation.....	290,657.23	910,471.63	1,140,371.63	

DEFERRED CHARGES:

Prepaid insurance, taxes and expenses.....				77,611.65
				<u>\$2,554,135.30</u>

LIABILITIES

CURRENT LIABILITIES:

Accounts payable.....				\$ 438,369.75
Accrued salaries, commissions and taxes.....				34,949.32
Dividend—payable February 3, 1947.....				62,500.00
Federal taxes on income—estimated—Note B.....				224,562.51

TOTAL CURRENT LIABILITIES.....				\$ 760,381.58
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DEFERRED INCOME:

Rents received in advance.....	\$ 2,277.76			
Unearned carrying charges on installment sales.....	1,950.28	4,228.04		

CAPITAL STOCK AND SURPLUS:

Capital stock:				
Common stock—par value \$100.00 per share:				
Authorized and issued 10,000 shares.....	\$1,000,000.00			
Surplus:				
Arising from revaluation of properties.....	\$ 450,602.84			
Earned surplus—Note B.....	338,922.84	789,525.68	1,789,525.68	
				<u>\$2,554,135.30</u>

NOTE A—Land is stated as appraised as of June 27, 1939, by independent appraisers, plus a subsequent addition at cost in the amount of \$4,900.00. Buildings and equipment are stated at sound values as reported by independent appraisers as of June 15, 1939, plus subsequent additions at cost less reserves for depreciation since date of appraisal. At January 31, 1947 the unamortized appreciation amounted to \$450,602.84.

Under the terms of a lease, covering a period of 99 years from January 1, 1945, the Company is required to erect within five years after the end of the war, a building on the leased land at a cost of not less than \$150,000.00. As a part of the consideration a small strip of land now owned by the Company, included in the land account at a cost of \$4,900.00, is to be deeded to the lessor of the land on which the building is to be erected. This small strip of land adjoins and becomes a part of the land covered by the lease.

NOTE B—This balance sheet is subject to adjustment, if any, upon final determination of liability for federal taxes on income.

OPPENHEIM, COLLINS & Co., INC.



Philadelphia, Pa.



New York, 34th Street



Buffalo, N. Y.



Morristown, N. J.



Brooklyn, N. Y.



East Orange, N. J.



Garden City, N. Y.



White Plains, N. Y.

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